

Message Text

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ACTION EB-08

INFO OCT-01 EA-10 ISO-00 CAB-02 CIAE-00 COME-00
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FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 2947

INFO AMEMBASSY WELLINGTON

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E.O. 11652: N/A

TAGS: EAIR, AS

SUBJ: CIVAIR: APPROACH TO GOA REGARDING CIVIL AVIATION NEGOTIATIONS

REF: (A) STATE 079111(NOTAL), (B) STARE 63476

1. IN ACCORDANCE WITH INSTRUCTIONS REFTEL A, EMBASSY HAS CALLED ON MINISTER OF TRANSPORT NIXON TO URGE MORE FLEXIBLE, LIBERAL AUSTRALIAN POSITION IN JUNE ROUND OF BILATERAL AVIATION DISCUSSIONS. IN ABSENCE OF AMBASSADOR WHEN APPOINTMENT WAS SET UP, APPROACH WAS MADE APRIL 10 BY DCM, E/C COUNSELOR, AND COMMATT.

2. CONVERSATION WAS CORDIAL BUT BLUNT. FOLLOWING EMBASSY PRESENTATION, MINISTER OBSERVED THAT HE WAS IN VIRTUALLY COMPLETE AGREEMENT WITH PHILOSOPHY OF U.S. POSITION AS SET FORTH BY EMBASSY, BUT THAT HE REMAINED UNCONVINCED THAT CONTINENTAL WOULD BE ABLE TO GENERATE TRAFFIC WHICH IT AND USG ASSERTED IT WOULD. NIXON COMMENTED THAT AUSTRALIAN GOVERNMENT WAS STRONGLY DESIROUS OF LOWERING FARES ON PACIFIC RUN, AND THAT HE FAILED TO SEE HOW ADDITION OF FURTHER CAPACITY WHEN EXISTING CAPACITY WAS UNDERUTILIZED WAS GOING TO CONTRIBUTE TO THIS OBJECTIVE. IN ADDITION, DISREGARD
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FOR ENERGY WASTAGE ASSOCIATED WITH UNDERUTILIZED CAPACITY SEEMED TO HIM UNJUSTIFIABLE, AS WELL AS BEING INCONSISTENT WITH STATED U.S. ENERGY-CONSERVATION GOALS.

3. IN HIS COMMENTS ON PRICING, NIXON ALSO REFERRED TO LATEST PAN AM FARE-REDUCTION PROPOSAL AND SUGGESTED THAT IT WAS FAR FROM ADEQUATE. HE POINTED OUT THAT IT INVOLVED A VERY SMALL

PERCENTAGE OF TOTAL SEAT CAPACITY AND SEEMED, THEREFORE, TO CONTRIBUTE VERY LITTLE TO OBJECTIVE OF FARE REDUCTION.

4. IN ELABORATING ON HIS SKEPTICISM AS TO CONTINENTAL TRAFFIC-GENERATING ABILITIES, NIXON POINTED OUT THAT ON HIS VISIT TO WASHINGTON HE HAD SPOKEN WITH MANY OF KEY PLAYERS. INCLUDING ROBERT SIX, BUT THAT NONE OF THIS HAD DISPELLED HIS DOUBTS. CIVIL AERONAUTICS BOARD, HE OBSERVED, WAS SPLIT IN ITS EVALUATION AS TO PROBABLE EFFECT ON PAN AMERICAN (AND BY INFERENCE QANTAS) OF TRAFFIC DIVERSION TO CONTINENTAL. BOARD DECISION, HE OBSERVED, WITH ONE MAJORITY MEMBER WAVERING, COULD VERY EASILY HAVE GONE THE OTHER WAY.

5. INTERNATIONAL AVIATION POLICY REVIEW WAS SITTING IN THICK BINDER ON NIXON'S DESK. MINISTER COMMENTED THAT IT WAS NOW UP TO HIM TO DECIDE AMONG THE SEVERAL OPTIONS PRESENTED IN THE STUDY, WHICH HE CHARACTERIZED AS WELL DONE. HE CONCLUDED DISCUSSION BY STATING FORTHRIGHTLY THAT WHILE THERE MIGHT BE SOMETHING DIFFERENT TO COME OUT OF THE STUDY, HIS PRESENT POLICY POSITION AS IT RELATED TO CONTINENTAL HAD NOT CHANGED.

6. COMMENT: EMBASSY BELIEVES THAT NIXON COMMENTS ON FARES POINT UP AN OPPORTUNITY FOR U.S. TO MOVE UPCOMING JUNE DISCUSSION OFF DEAD CENTER. ALTHOUGH U.S. HAS BEEN ASSERTING THAT INTRODUCTION OF ADDITIONAL COMPETITION LIMITED OFFICIAL USE

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BRINGS LOWER FARES WHICH FILL UP AIRCRAFT, THERE HAS BEEN VIRTUALLY NOTHING CONCRETE, EITHER IN CAB DECISION OR IN RECENT CANBERRA DISCUSSIONS, TO BRING THIS HOME TO AUSTRALIANS IN SPECIFIC FASHION.

7. IF CONTINENTAL WERE INTENDING TO MAINTAIN EXISTING RATE STRUCTURE, THEN IT WOULD BE DIFFICULT TO REFUTE AUSTRALIAN CONTENTION THAT LOWERING COSTS BY MORE FULLY UTILIZING EXISTING CAPACITY CAN BE A FASTER, MORE VIABLE ROUTE TO LOWER FARES. HOWEVER, IT IS EMBASSY UNDERSTANDING THAT LOWER FARE STRUCTURE IS BUILT INTO CONTINENTAL PLANS. IT IS THIS LOWER FARE STRUCTURE WHICH HAS TO BE THE KEY TO U.S. ARGUMENT THAT ADDITIONAL COMPETITOR WILL GENERATE SUFFICIENT ADDITIONAL TRAFFIC TO PERMIT OPERATIONS OF ALL THREE CARRIERS TO BE VIABLE, AND AT SAME TIME MORE EFFICIENT IN TERMS OF CAPACITY UTILIZATION. MOREOVER, THAT PAN AM'S FARE-CUTTING PROPOSAL HAS BEEN DEEMED INSUFFICIENT PROVIDES PERFECT OPPORTUNITY TO SHOW IN SPECIFIC TERMS HOW MUCH BETTER A FARE STRUCTURE ADDITIONAL COMPETITOR WOULD BRING ABOUT.

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8. EMBASSY WOULD ACCORDINGLY SUGGEST THAT SPECIFICS OF CONTINENTAL'S FARE-REDUCTION PROPOSALS BE INTRODUCED INTO NEXT ROUND OF CONSULTATIONS. TOGETHER WITH SOUND ECONOMIC ANALYSIS OF ESTAMATED DEMAND ELASTICITIES AND CONSEQUENT TRAFFIC GENERATION DIRECTLY ATTRIBUTABLE TO THESE LOWERED FARES. EMBASSY CAN FORESEE BOTH SIDES ARGUING AD NAUSEAM ALONG PRESENT LINES, PARTICULARLY IN VIEW OF PARALLELS WITH ADMITTEDLY UNSATISFACTORY AMERICAN AIRLINES EXPERIENCE, WHEREAS A DEMAND-GROWTH ANALYSIS BASED ON REDUCED FARES INTRODUCES A TOTALLY NEW ELEMENT WHICH APPEARS NOT TO HAVE BEEN TESTED IN AMERICAN AIRLINES EXPERIMENT. IN LIGHT OF HISTORICAL RECORD OF MAINTENANCE OF HIGH FARES BY PRESENT CARRIERS ON PACIFIC RUN, IT SEEMS DEMONSTRABLY CLEAR THAT

IT IS THREAT OF CONTINENTAL COMPETITION WHICH IS NOW CAUSING MOVEMENT TOWARDS INTRODUCTION OF LOWER FARES. FOR REASONS BOTH OF EFFECTIVENESS AND EQUITY, IT WOULD SEEM COMPLETELY ILLOGICAL NOT TO APPROVE CONTINENTAL, THE AIRLINE WHICH IS CAUSING THE LOWER FARES TO HAPPEN, EVEN THOUGH QANTAS AND PAN AM NOW SEEM TO BE MOVING WITHOUT CONTINENTAL HAVING YET COME INTO THE MARKET. THIS IS OUT TRUMP CARD, AND EMBASSY BELIEVES WE SHOULD HIT IT HARD.

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9. FYI: MINISTER NIXON INDICATED THAT HE WAS CONSIDERABLY PIQUED AT STATEMENT IN PRESIDENT CARTER'S LETTER OF JULY 20,

1977, APPROVING CAB DECISION THAT, " NO SUBSTANTIAL FOREIGN
POLICY... CONSIDERATIONS ARE PRESENT IN THIS MATTER."
NIXON POINTED OUT THAT FOR AUSTRALIANS IT WAS A FOREIGN
POLICY MATTER OF SUFFICIENT IMPORTANCE FOR PRIME MINISTER
FRASER TO HAVE RAISED IT PERSONALLY WITH PRESIDENT DURING
HIS VISIT TO WASHINGTON. NEVERTHELESS, HE SAID, HE WAS
NOT ALLOWING DISCONTENT OVER THIS TO INFLUENCE HIS DECISION.
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